

ANNUAL BUDGET AND SUPPORTIN DOCUMENTS

DIKGATLONG LOCAL MUNICIPALITY

2017/18 TO 2020/21
MEDIUM TERM REVENUE AND
EXPENDITURE FORECASTS

Copies of this document can be viewed:

- In the foyers of all municipal buildings
- All public libraries within the municipality
- At www.dikgatlong.gov.za

Abbreviations and Acronyms

AMR	Automated Meter Reading	ℓ	litre
BPC	Budget Planning Committee	LED	Local Economic Development
CBD	Central Business District	MEC	Member of the Executive Committee
CFO	Chief Financial Officer	MFMA	Municipal Financial Management Act Programme
CPI	Consumer Price Index	MIG	Municipal Infrastructure Grant
CRRF	Capital Replacement Reserve Fund	MMC	Member of Mayoral Committee
DBSA	Development Bank of South Africa	MPRA	Municipal Properties Rates Act
DoRA	Division of Revenue Act	MSA	Municipal Systems Act
DWA	Department of Water Affairs	MTEF	Medium-term Expenditure Framework
EE	Employment Equity	MTREF	Medium-term Revenue and Expenditure Framework
EEDSM	Energy Efficiency Demand Side Management	NERSA	National Town Regulator South Africa
EM	Executive Mayor	NGO	Non-Governmental organisations
FBS	Free basic services	NKPIs	National Key Performance Indicators
GAMAP	Generally Accepted Municipal Accounting Practice	OHS	Occupational Health and Safety
GDP	Gross domestic product	OP	Operational Plan
GDS	Gauteng Growth and Development Strategy	PBO	Public Benefit Organisations
GFS	Government Financial Statistics	PMS	Performance Management System
GRAP	General Recognised Accounting Practice	PPE	Property Plant and Equipment
HR	Human Resources	PPP	Public Private Partnership
HSRC	Human Science Research Council	PTIS	Public Transport Infrastructure System
IDP	Integrated Development Strategy	SALGA	South African Local Government Association
IT	Information Technology	SAPS	South African Police Service
kl	kilolitre	SDBIP	Service Delivery Budget Implementation Plan
km	kilometre	SMME	Small Micro and Medium Enterprises
KPA	Key Performance Area		
KPI	Key Performance Indicator		
kWh	kilowatt		

Part 1 – Annual Budget

1.1 Mayor's Report

5 JUNE 2016

HONOURABLE CHIEF WHIP

MEMBERS OF THE MUNICIPAL COUNCIL

MUNICIPAL MANAGER AND SENIOR MANAGER

OFFICIALS

DISTINGUISHED GUESTS, INCLUDING,

COMRADES AND FRIENDS

LADIES AND GENTLEMEN

INTRODUCTION

Honourable members, it is indeed a pleasure to be with you here today, as we once again gather in this august house to recommit ourselves to the common objectives of improving the living standard of the people of our province.

“I stand here before you, not as a prophet but as a humble servant of you, the people. Your tireless and heroic sacrifices have made it possible for me to be here today...” (Nelson Mandela, 11 February 1990).

Honourable members, these words were humbly articulated by South Africa's first democratically elected president, Honourable Nelson Rolihlahla Mandela at a rally, on his release from prison on 11 February 1990; in gratitude to the millions of his compatriots and everybody around the world, who tirelessly campaigned for his release.

He ensured that the 1993 Interim Constitution enshrined the spiritual philosophy of Ubuntu and its inherent principles of equality, freedom and justice for all, which found further expression in our 1996 Constitution. As we look back at the occasion that

rallies our nation together in celebration, we also honor men and women who have contributed in different ways, big and small, in making the dream of a peaceful transformation a reality.

Honourable Speaker, in celebrating how we have come and how much we have accomplished, we need to look to the future and continue to plan and be prepared for the challenges and opportunities at our disposal.

To ensure that future generations of this country continue to enjoy economic success and social harmony, we need competent and dynamic cadres of public servants. We count on public servant to use their respective expertise to help the Municipality to deliver on its mandate of providing quality services to all. We expect them to hold themselves to the highest standard of integrity in all that they do, and remember that their main duty is to serve the people. It is important that public service cadres always remain humble and open to different views and ideas..

Honourable members, it is crucial that as a municipality we invest in our youth to ensure a skilled and capable workforce to support municipal priorities. We urge both public and private sector to equip unemployed graduates with valuable work experience and expose them to opportunities. This will help us to build a new generation of workforce capable of assisting the democratically elected government to pursue the implementation of the freedom charter.

Honourable members, this budget is about building a better municipality for today and for the long term, while protecting what matters most to communities in this uncertain era. This uncertainty that we face today culminates from the global financial crisis of 2008.

The effects of the global economic challenges have a ripple effect on economies around the world.

Despite the uncertainty, we have made choices that are in line with governments main priorities which are among others, infrastructure and service delivery.

Today, we are responding to this worldwide economic pressure with a more responsible and balanced approach that meets current challenges and invests in

future opportunities. We need to maintain fiscal balance with our multi-year plans that invest in economic growth and development while protecting front-line services.

Honourable members, there are no quick solutions to this economic crisis. Together, we will meet these challenges and implement our plans to move Northern Cape to a brighter and prosperous future.

And so on...

1.2 Council Resolutions

On the 5th of June 2017 the Council of Dikgatlong Municipality met in the Council Chambers of Dikgatlong Municipality Hall to consider the annual budget of the municipality for the financial year 2017/18. The Council approved and adopted the following resolutions:

1. The Council of Dikgatlong Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
 - 1.1. The annual budget of the municipality for the financial year 2017/18 and the multi-year and single-year capital appropriations as set out in the following tables:
 - 1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table 18 on page 24;
 - 1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table 19 on page 26;
 - 1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table 21 on page 28; and
 - 1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table 22 on page 30.
 - 1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
 - 1.2.1. Budgeted Financial Position as contained in Table 23 on page 32;
 - 1.2.2. Budgeted Cash Flows as contained in Table 24 on page 34;
 - 1.2.3. Cash backed reserves and accumulated surplus reconciliation as contained in Table 25 on page 34;
 - 1.2.4. Asset management as contained in Table 26 on page 36; and
 - 1.2.5. Basic service delivery measurement as contained in Table 27 on page 38.
2. The Council of Dikgatlong Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2010:
 - 2.1. the tariffs for property rates – as set out in Annexure A,
 - 2.2. the tariffs for electricity – as set out in Annexure B
 - 2.3. the tariffs for the supply of water – as set out in Annexure C
 - 2.4. the tariffs for sanitation services – as set out in Annexure E
 - 2.5. the tariffs for solid waste services – as set out in Annexure F

3. The Council of Dikgatlong Local Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2017 the tariffs for other services, as set out in Annexures G1 to G21 respectively.
4. To give proper effect to the municipality's annual budget, the Council of Dikgatlong Municipality approves:
 - 4.1. That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions, unspent long-term loans and unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.

1.3 Executive Summary

The application of sound financial management principles for the compilation of the town's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipal business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items. Key areas where savings were realized were on telephone and internet usage, printing, workshops, overseas and national travel, accommodation, and catering.

Dikgatlong Municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 86, 85 and 82 were used to guide the compilation of the 2017/18 MTREF.

The main challenges experienced during the compilation of the 2017/18 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk water and electricity (due to tariff increases from Sedibeng - as there will be point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2017/18 MTREF process; and
- Availability of affordable capital/borrowing.

The following budget principles and guidelines directly informed the compilation of the 2017/18 MTREF:

- The 2016/17 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2017/18 Annual Budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2017/18 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2017/18 MTREF

Description	2017/18	2019/20	2020/21
Total Operating Income	R160 456 000	R176 992 000	R189 108 000
Total Operating Expenditure	R160 003 000	R172 492 000	R185 631 000
Profit/ (Deficit)	R453 000	R4 500 000	R3 477 000

Total operating expenditure for the 2017/18 financial year has been appropriated at R160 million and translates into a budgeted surplus of R453 000. The operating surplus for the two outer years steadily increases to 4 million and then stabilise at R3,4 million. These surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The balance will be funded from internally generated funds. Note that the Town has reached its prudential borrowing limits and so there is very little scope to substantially increase these borrowing levels over the medium-term. The repayment of capital and interest (debt services costs) has substantially increased over the past five years as a result of the aggressive capital infrastructure programme implemented over the past three years. Consequently, the capital budget remains relatively flat over the medium-term.

1.4 Operating Revenue Framework

For Dikgatlong Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence

difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the Town and continued economic development;
- Efficient revenue management, which aims to ensure a 95 per cent annual collection rate for property rates and other key service charges;
- Town tariff increases as approved by the National Town Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Town.

The following table is a summary of the 2017/18 MTREF (classified by main revenue source):

Table 2 Percentage growth in revenue by main revenue source

Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand	1										
Revenue By Source											
Property rates	2	-	-	-	-	-	-	-	4 720	5 022	5 343
Service charges - electricity revenue	2	-	-	-	-	-	-	-	27 324	29 182	31 166
Service charges - water revenue	2	-	-	-	-	-	-	-	14 647	15 584	16 581
Service charges - sanitation revenue	2	-	-	-	-	-	-	-	2 677	2 848	3 030
Service charges - refuse revenue	2	-	-	-	-	-	-	-	7 325	7 794	8 293
Service charges - other											
Rental of facilities and equipment									319	340	361
Interest earned - external investments									430	458	487
Interest earned - outstanding debtors									22 702	24 155	25 701
Dividends received									-	-	-
Fines, penalties and forfeits									60	64	68
Licences and permits									-	-	-
Agency services									-	-	-
Transfers and subsidies									74 105	84 332	90 401
Other revenue	2	-	-	-	-	-	-	-	5 436	5 784	6 154
Gains on disposal of PPE									715	1 431	1 522
Total Revenue (excluding capital transfers and contributions)		-	-	-	-	-	-	-	160 459	176 992	189 108

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Operating Transfers and Grant Receipts

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Town.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increases of both Eskom and Water bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's town and in these tariffs are largely outside the control of the Town. Discounting the impact of these price increases in lower consumer tariffs will erode the Town's future financial position and viability.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of town and water, petrol, diesel, chemicals, cement etc. The current challenge facing the Town is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the Town has undertaken the tariff setting process relating to service charges as follows.

1.4.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0,25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this rebate, a further R25 000 reduction on the market value of a property will be granted in terms of the Town's own Property Rates Policy;
- 100 per cent rebate will be granted to registered indigents in terms of the Indigent Policy;
- For pensioners, physically and mentally disabled persons, a maximum/total rebate of 50 per cent (calculated on a sliding scale) will be granted to owners of rate-able property if the total gross income of the applicant and/or his/her spouse, if any, does not to exceed the amount equal to twice the annual state pension as approved by the National Government for a financial year. In this regard the following stipulations are relevant:
 - The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income;
 - The applicant must submit proof of his/her age and identity and, in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension;

- The applicant's account must be paid in full, or if not, an arrangement to pay the debt should be in place; and
- The property must be categorized as residential.

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2017/18 financial year based on a 10 per cent increase from 1 July 2017 is contained below:

Table 3 Comparison of proposed rates to levied for the 2017/18 financial year

LEVY OF RATES (FINANCE/ VALUATIONS)					
	CODE	PRESENT TARIFFS	PROPOSED TARIFFS 2017/07/01	PROPOSED TARIFFS 2018/07/01	PROPOSED TARIFFS 2019/07/01
		R	R	R	R
Agricultural Residential	AGR	0.002500	0.002500	0.002535	0.002540
Agricultural Farms	AGE	0.002500	0.002500	0.002535	0.002540
Agricultural Business	AGB	0.030000	0.002537	0.002755	0.002856
Business/ Residential Business not registered	BUS	0.030000	0.027000	0.027450	0.028140
Accommodation Establishment	ACC	0.018000	0.018500	0.019470	0.021234
State / Public School	GOB	0.030000	0.041400	0.051320	0.062439
Industrial	IND	0.025000	0.030000	0.031215	0.034230
Residential / Municipal Residential	RES	0.010000	0.010149	0.011020	0.011670
Minining	MIN	0.030000	0.100000	0.115700	0.156700
Vacant Land	RVA	0.010000	0.023000	0.035000	0.042800
Churches/ NGO/ NPO	NGO	0.002500	0.002600	0.002650	0.002710

1.4.2 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with town, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective by 2014.

Better maintenance of infrastructure, new dam construction and cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability. Water Providers has increased its bulk tariffs with 6.1 per cent from 1 July 2017, which increase contributes to approximately 21 per cent of the Town's water input cost.

Water Providers has undertaken a critical assessment of its capital infrastructure requirements. The assessment indicates that Water Providers current infrastructure is

unlikely to sustain its long-term ability to supply water and they had no other choice but to enter capital markets for infrastructure upgrades, hence the significant increase in the bulk cost of water.

A summary of the proposed tariffs for households (residential) and non-residential are as follows:

Table 4 Proposed Water Tariffs

	PROPOSED TARIFFS 2017/07/01	PROPOSED TARIFFS 2018/07/01	PROPOSED TARIFFS 2019/07/01
	R	R	R
WATER (NORMAL TARIFF STRUCTURE)			
Schools, Sports fields and Parks)	15,54	16,49	17,49
Charities/ Churches	15,54	16,49	17,49
Business - Commercial	26,38	28	29,7
Business - Industrial	21,6	22,67	23,78
Residential (0 - 6kl)	5,67	5,98	6,34
Residential (7 - 20kl)	21,56	22,56	24,34
Residential (21 - 40kl)	24,45	25,16	27,88
Residential (41 - 60kl)	25,57	27,5	28,26
Residential (more than 60kl)	27,69	29,45	30,12

1.4.3 Sale of Town and Impact of Tariff Increases

NERSA has announced the revised bulk town pricing structure. A 6,7 per cent increase in the Eskom bulk tariff to municipalities will be effective from 1 July 2017

Considering the Eskom increases, the consumer tariff had to be increased by 19 per cent to offset the additional bulk purchase cost from 1 July 2017. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in consumption, which will have a negative impact on the municipality's revenue.

Table 5 Comparison between current town charges and increases (Domestic)

	PRESENT TARIFFS	PROPOSED TARIFFS 2017/07/01	PROPOSED TARIFFS 2018/07/01	PROPOSED TARIFFS 2019/07/01
ELECTRICITY (SUBJECT TO THE APPROVAL)				
<u>Residential</u>				
Domestic: Prepaid Electricity				
Energy Charge	141,00 c/kWh	151,00 c/kWh	161,00 c/kWh	172,00 c/kWh
Domestic: Convention				
Basic Charge Per Month	R 90,00	R 100,00	R 112,00	R 125,00
Consumption (per unit)	143,92 c/kWh	158,80 c/kWh	168,90 c/kWh	172,56 c/kWh
<u>Small Business</u>				
Commercial: Prepaid				
Energy Charge	187,00 c/kWh	194,00 c/kWh	209,77 c/kWh	217,78 c/kWh
<u>Commercial: Convention</u>				
Basic Charge Per Month	R 206,00	R 215,00	R 223,00	R 232,00
Energy Charge	181,31 c/kWh	199,78 c/kWh	211,78 c/kWh	226,56 c/kWh
<u>Commercial Medium</u>				
Basic Charge Per Month	R 206,00	R 218,00	R 227,00	R 236,00
Energy Charge	172,22 c/kWh	183,34 c/kWh	193,56 c/kWh	208,23 c/kWh
Demand Charge	63,51 R/kVA	76,56 R/kVA	89,43 R/kVA	97,56 R/kVA
<u>Municipal/ State Department and Schools</u>				
Basic Charge	R 318,00	R 389,00	R 456,00	R 540,00
Energy charge	166,00 c/kWh	178,00 c/kWh	186,00 c/kWh	194,89 c/kWh
Demand Charge				
<u>Serviced Vacant Land</u>				
Basic Charge Per Month	87,00 c/kWh	96,78 c/kWh	105,67 c/kWh	116,44 c/kWh
<u>Industrial</u>				
Basic Charge Per Month	R 478,00	R 550,00	R 630,00	R 757,00
Energy Charge	160,30 c/kWh	174,87 c/kWh	183,23 c/kWh	194,78 c/kWh
Demand Charge	R100,00 R/kVA	109,00 R/kVA	123,00 R/kVA	137,23 R/kVA

It should further be noted that NERSA has advised that a stepped tariff structure needs to be implemented from 1 July 2017. The effect thereof will be that the higher the consumption, the higher the cost per kWh. The aim is to subsidise the lower consumption users (mostly the poor). The Town has entered into discussions with NERSA regarding the suitability of the NERSA proposed stepped tariffs compared to those already being implemented by the Town already. Until the discussions are concluded, the Town will maintain the current stepped structure of its Town tariffs.

The inadequate Town bulk electricity and the impact on service delivery and development remains a challenge for the Town. Most of the suburbs and inner Town reticulation network was designed or strengthened in the early 1980's with an expected 20-25 year life-expectancy. The upgrading of the Town's network has therefore become a strategic priority, especially the substations and transmission lines.

Owing to the high increases in Eskom's bulk tariffs, it is clearly not possible to fund these necessary upgrades through increases in the municipal Town tariff – as the resultant tariff increases would be unaffordable for the consumers. It is therefore proposed that the taking up of loans as a strategy for funding of the infrastructure be considered and approved to spread the burden over the life span of the assets. As part of the 2017/18 medium-term

capital programme, funding has been allocated to town infrastructure but these funding levels will require further investigation as part of the next budget cycle in an attempt to source more funding to ensure this risk is mitigated.

1.4.4 Sanitation and Impact of Tariff Increases

A tariff increase of 11 per cent for sanitation from 1 July 2017 is proposed. This is based on the input cost assumptions related to water. It should be noted that town costs contributes approximately 6 per cent of waste water treatment input costs, therefore the higher than CPI increase of 8 per cent for sanitation tariffs. The following factors also contribute to the proposed tariff increase:

- Sanitation charges are calculated according to the percentage water discharged as indicated in the table below;
- Free sanitation (98 per cent of 6 kℓ water) will be applicable to registered indigents; and

The following table compares the current and proposed tariffs:

Table 6 Comparison between current sanitation charges and increases

	CODE	PRESENT TARIFFS	PROPOSED TARIFFS 2017/07/01	PROPOSED TARIFFS 2018/07/01	PROPOSED TARIFFS 2019/07/01
SEWERAGE AND VACUUM TANK (INCLUSIVE OF VAT AT 14%)					
Sewerage: Residential	SR01	R 120,00	R 126,00	R 144,00	R 155,00
Basic Charge			R 50,00	R 50,00	R 50,00
Sewerage: Business	SB02	R 300,00	R 349,00	R 470,00	R 565,00
Basic Charge			R 100,00	R 112,00	R 120,00
Sewerage: Community	SG01	R 80,00	R 100,00	R 120,00	R 134,00
Sewerage: State / Public School	SS01	New	R 500,00	R 600,00	R 652,00
Basic Charge			R 299,00	R 320,00	R 423,00

The following table shows the impact of the proposed increases in sanitation tariffs on the sanitation charges for a single dwelling-house:

1.4.5 Waste Removal and Impact of Tariff Increases

Currently solid waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The Town will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The main contributors to this deficit are repairs and maintenance on vehicles, increases in general expenditure such as petrol and diesel and the cost of remuneration. Considering the deficit, it is recommended that a comprehensive investigation into the cost structure of solid waste function be undertaken, and that this include investigating alternative service delivery models. The outcomes of this investigation will be incorporated into the next planning cycle.

A 9 per cent increase in the waste removal tariff is proposed from 1 July 2017. Higher increases will not be viable in 2017/18 owing to the significant increases implemented in

previous financial years as well as the overall impact of higher than inflation increases of other services. Any increase higher than 9 per cent would be counter-productive and will result in affordability challenges for individual rates payers raising the risk associated with bad debt.

The following table compares current and proposed amounts payable from 1 July 2017:

Table 7 Comparison between current waste removal fees and increases

REFUSE REMOVAL (INCLUSIVE OF VAT AT 14%)	CODE	PRESENT TARIFFS	PROPOSED TARIFFS 2017/07/01	PROPOSED TARIFFS 2018/07/01	PROPOSED TARIFFS 2019/07/01
Residential: Monthly Charge	RR01	R 125,00	R 210,00	R 270,00	R 285,00
Basic Charge			R 50,00	R 50,00	R 60,00
Business: Monthly Charge	RB01	R 378,05	R 550,00	R 580,00	R 640,00
Basic Charge			R 200,00	R 210,00	R 240,00
Government: Monthly Charge		R 285,25	R 560,00	R 575,00	R 660,00
Basic Charge			R 200,00	R 210,00	R 240,00
Building Rumble		R 552,18	R 555,00	R 580,00	R 650,00
Blue Containers		R 323,57	R 560,00	R 580,00	R 660,00
Fine for dumping		R 685,46	R 745,00	R 770,00	R 790,00
Cleaning of empty stands		R 726,99	R 755,76	R 778,67	R 800,50

1.4.6 Overall impact of tariff increases on households

The following table shows the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

Note that in all instances the overall impact of the tariff increases on household's bills has been kept to between 12 and 13 per cent, with the increase for indigent households closer to 12 per cent.

1.5 Operating Expenditure Framework

The Town's expenditure framework for the 2017/18 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;

- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plan no budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2017/18 budget and MTREF (classified per main type of operating expenditure):

Table 8 Summary of operating expenditure by standard classification item

Expenditure By Type												
Employee related costs	2	-	-	-	-	-	-	-	52 074	55 838	59 737	
Remuneration of councillors									3 730	3 969	4 223	
Debt impairment	3								3 000	2 808	2 628	
Depreciation & asset impairment	2	-	-	-	-	-	-	-	22 075	23 488	24 991	
Finance charges									6 176	9 277	12 403	
Bulk purchases	2	-	-	-	-	-	-	-	23 436	24 936	26 532	
Other materials	8								7 593	8 078	8 595	
Contracted services		-	-	-	-	-	-	-	16 786	17 860	19 003	
Transfers and subsidies		-	-	-	-	-	-	-	-	-	-	
Other expenditure	4, 5	-	-	-	-	-	-	-	25 134	26 238	27 519	
Loss on disposal of PPE												
Total Expenditure		-	-	-	-	-	-	-	160 003	172 492	185 631	

The budgeted allocation for employee related costs for the 2017/18 financial year totals R175 million. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 7 per cent for the 2017/18 financial year. An annual increase of 7.5 per cent has been included in the two outer years of the MTREF. As part of the Town's cost reprioritization and cash management strategy vacancies have been significantly rationalized downwards. As part of the planning assumptions and interventions all vacancies were originally removed from the budget and a report was compiled by the Corporate Services Department relating to the prioritization of critical vacancies within the Municipality. In addition expenditure against overtime was significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions.

The settlement reached by the SALGBC parties in the salary dispute resulted in a further financial implication on this area of expenditure. A preliminary amount of R34.8 million has been included in the 2017/18 MTREF. It should be noted that the total financial implication could not be determined as the applicable municipal wage curve (representing equal pay for equal work at all municipalities in South Africa) has not been finalised.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the Town's budget.

Bulk purchases are directly informed by the purchase of town from Eskom and water from Rand Water. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Other materials comprises of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals. In line with the Town's repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the Town's infrastructure.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. Growth has been limited to 5 per cent for 2017/18 and curbed at 6.2 and 5.9 per cent for the two outer years, indicating that significant cost savings have been already realised. Further details relating to contracted services can be seen in Table 64 MBRR SA1 (see page 100).

The following table gives a breakdown of the main expenditure categories for the 2017/18 financial year.

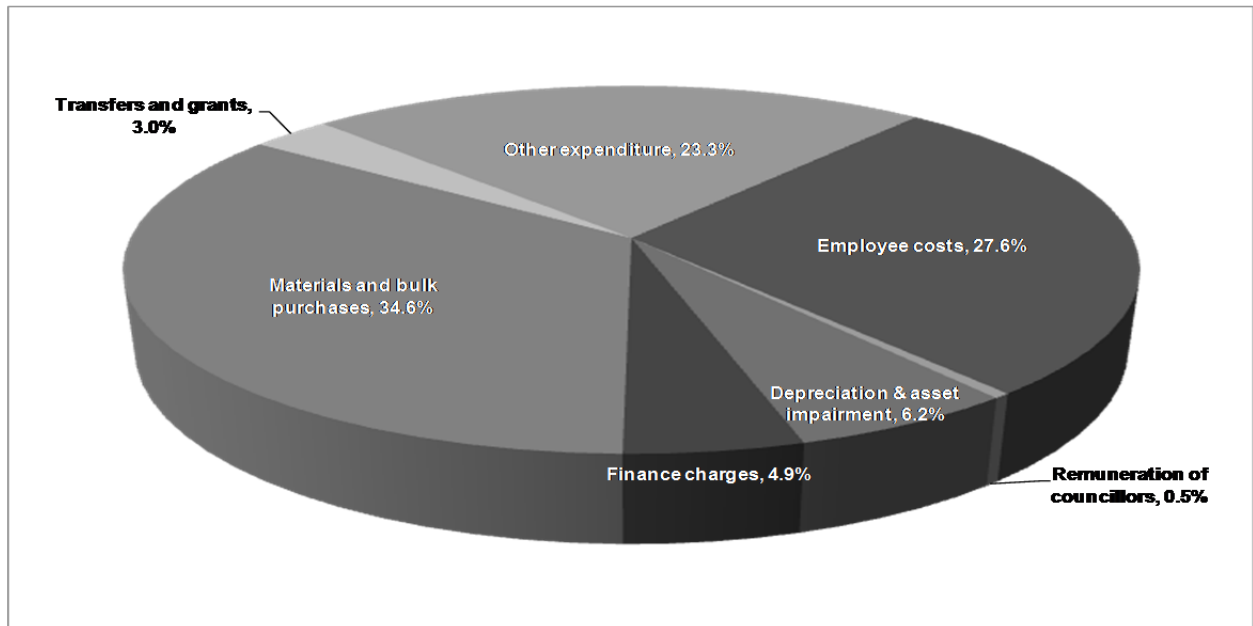


Figure 1 Main operational expenditure categories for the 2017/18 financial year